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PACIFIC WESTERN AIRLINES LTD.

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HEAD OFFICE: 744 WEST HASTINGS ST., VANCOUVER 1, B.C. 688-8411

TORONTO OFFICE: BOX 292, TORONTO-DOMINION CENTRE, TORONTO 111, ONT., 362-2051

BRANCH OFFICES: CALGARY • VICTORIA • NEW WESTMINSTER • KAMLOOPS • KELOWNA • PENTICTON • VERNON

PACIFIC WESTERN AIRLINES LTD.

Current market price:	\$17 $\frac{1}{8}$ - \$17 $\frac{1}{2}$	1972 price range:	\$13 $\frac{5}{8}$ - \$17 $\frac{5}{8}$
December, 1971 e.p.s.:	\$1.46	p/e on 1971 e.p.s.:	11.8
December, 1972 est. e.p.s.:	\$1.97 *	p/e on 1972 est. e.p.s.:	8.7
Indicated dividend:	\$.25	Current yield:	1.4%

- * Assuming full conversion of the 7% Series AA convertible debentures and exercise of an option to purchase 30,000 shares by CAE Industries.

LISTED: PWA - Vancouver Stock Exchange **

- ** The company has applied for a listing on the Toronto Stock Exchange.

SUMMARY AND RECOMMENDATION:

- (a) Pacific Western Airlines is the largest independent airline in Canada and the largest Canadian regional air carrier. Some 19 aircraft are operated including four Boeing 737's, one Boeing 707, three Lockheed Hercules freighter aircraft, four Lockheed Electras, and five Convair 640 turboprops. An additional 737 is on order for delivery in May, 1972.
- (b) The majority of the company's profits are derived from the scheduled mainline flights which include some 14,000 licensed route miles throughout British Columbia, Alberta, Saskatchewan, the Northwest Territories and the State of Washington. All main centers of British Columbia are serviced as well as Seattle in the Pacific Northwest of the U.S. The Chieftain Airbus which runs between Calgary and Edmonton is very successful and has led to increased development of the far North service to centers such as Fort Simpson, Resolute and Inuvik. The Boeing 707 is used exclusively for charter flights.
- (c) An important operating division is commercial air freight services which PWA operates utilizing Hercules aircraft as well as Lockheed Electras. These aircraft are used extensively for supplying oil and gas exploration activities in the North as well as general freight in Canada. Substantial foreign overseas business is also done in the summer months.
- (d) The Pacific Western Trucking division operates out of Edmonton into the North where it works together with the airline in reducing overall freight transportation costs to the frontier areas. This division has been completely re-organized and re-equipped and should add substantially to profits in 1972.
- (e) During 1966-1970 the earnings of PWA reflected the replacement of most of the piston-engine equipment with jet and prop jet aircraft. This very substantial expansion added extra costs of introducing the jet aircraft in terms of terminal facilities, maintenance facilities, training crew members, etc. as well as the incorporation of very heavy leasing costs into the income statements while load factors were relatively low. Thus while net profit fluctuated as a result of these increased expenses perhaps a more meaningful indication of

the company's progress can be noted from cash flow which increased from \$2.31 per share in 1966 to \$3.85 per share in 1970. Gross revenue during that period grew from \$12.2 million to \$43.5 million.

- (f) The earnings breakthrough in 1971 was primarily due to the implementation of cost control systems and revised management procedures coupled with the intensification of sales activity. The changes were implemented by the President, Mr. D. Watson, who assumed the office in October, 1970 and immediately undertook a cost study of the entire company.
- (g) We estimate that earnings per share will approximate \$1.97 for the current fiscal year reflecting a 15% growth in revenues, sizeable interest savings due to refinancing of aircraft mortgages and continued close cost control. Although the majority of profits is derived from scheduled mainline routes in the more settled areas, activity in Northern oil and gas exploration has intensified with commensurate effect on PWA's earnings from that area.
- (h) The common stock at 8.7 times our estimate of \$1.97 per share for 1972 offers an outstanding investment opportunity. Following several years of rapid expansion PWA is now in a position to experience dramatic increases in profits. The company services some of the fastest growing areas in Canada and should experience a minimum of 15% compound growth rate in gross revenues for the foreseeable future. With costs under control, the inherent leverage of the airline operation will result in earnings growth considerably in excess of the increase in revenues. Developments in the North could lead to an even higher rate of growth. We recommend the common stock for above average capital appreciation over the longer term.

March, 1972

M. B. McManus

<u>CAPITALIZATION:</u>	As at June 30, 1971	<u>Authorized</u>	<u>Issued</u>
Long term debt - various rates and maturities		--	\$15,230,973
Convertible preferred shares Series A		--	120,000 shs.
Common shares n.p.v.		1,500,000 shs.	927,492 shs.

I. THE COMPANY:

Pacific Western Airlines (PWA) began operations in 1945 and adopted the present name in 1953. Since that time, operations have grown substantially to the point where today, PWA is the largest independent airline in Canada and the largest Canadian regional air carrier. Additional routes were acquired in 1970 with the acquisition of B.C. Airlines for cash and shares. Some 19 aircraft are operated including four Boeing 737's, one Boeing 707, three Hercules freighter aircraft, four Lockheed Electras and five Convair 640 turboprops. A fifth Boeing 737 is on order for delivery in May, 1972. From time to time additional aircraft are leased for short periods as the need arises. The Company also owns several surplus Douglas piston engine aircraft which are being sold at the present time.

In addition to air services, PWA acquired Byers Transport Limited and Truckers Terminal Distributing Co. Ltd. in 1969 and Monarch Transport Ltd. in 1971. These companies, which comprise the trucking division, operate out of Edmonton into the North and complement PWA in the shipment of various types of freight.

A. SCHEDULED AIR SERVICES: PWA services some 14,000 licensed route miles throughout British Columbia, Alberta, Saskatchewan, the Northwest Territories and the State of Washington. Many of the Company's routes came about as a result of the decision of the Air Transport Board in 1966 to implement a regional air policy to govern regional air carriers. Briefly, the policy states that regional airlines will not be authorized to compete with Air Canada and C.P. Air for long haul traffic. Instead they will be allowed to take over those routes that do not suit the operations of the two major airlines and which are of a regional nature.

As a result, PWA has been awarded such routes as Vancouver-Kelowna-Penticton, Cranbrook-Calgary, Port Hardy-Sandspit-Prince Rupert, Vancouver-Kamloops-Calgary, etc. The Company can be expected, in time, to acquire such routes as Prince George-Vancouver direct, Prince Rupert-Vancouver direct and so on. Routes currently under consideration include authorization to service Vancouver-Kamloops-Edmonton but as yet a decision has not been received on the route.

All the main centers in British Columbia are serviced including direct connections between Vancouver, Kamloops and Calgary and the coastal runs servicing Powell River, Comox, Campbell River, etc. One of the most successful routes is the Chieftain Airbus serving Edmonton and Calgary with a no-reservation guaranteed-travel, inter-city commuter service. The newly developed Vancouver-Victoria-Seattle service has been successful with PWA the only Canadian airline serving Seattle on a scheduled basis. The current traffic split to and from Victoria is 70% Air Canada and 30% PWA. This spring, Air Canada will reduce the service to Victoria to concentrate on inter-continental flights and it is expected that the two airlines will switch positions with PWA carrying the majority of the traffic. The Northern services connect Edmonton with far North centers such as Fort Simpson, Resolute and Inuvik. Other routes connect Vancouver-Williams Lake-Quesnel-Smithers-Prince Rupert, etc. Although there will be some small differences, the Company's mainline route structure in September, 1972, the peak period of the year, should approximate that shown in Tables I, IA and IB.

Table I

SCHEDULED PASSENGER REVENUE

	<u>Years Ended December 31</u>					
	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>
Revenue from scheduled flights (\$000)	30,188	23,496	17,978	11,082	10,308	8,583
Change	+28.5%	+30.7%	+62.2%	+7.5%	+20.1%	+20.4%

The growth rate for the mainline system over the last few years is presented in Table II and reflects a conservative attitude, in that the forecast of 15% growth was actually below the level achieved in 1971. This then would seem to be the minimum expectation and does not take into account jet stimulation, the acquisition of new routes or economic boom conditions.

Historical growth rates and forecasts for some of the more important routes are outlined below:

- (a) Calgary-Edmonton: traffic on the Chieftain Airbus has grown from 50,000 passengers yearly in 1964 to 300,000 passengers in 1971 and is expected to increase at about 15% per year for the foreseeable future. The airbus accounts for about 30% of total scheduled passenger traffic but because of the short distance between the two cities, approximately 15% of total mainline revenue. (Table III).
- (b) Vancouver-Kelowna: the route traffic has grown from 12,000 passengers in 1964 to 75,000 in 1971. The projection is for at least a 15% growth rate of traffic per year over the next six years. (Table IV).
- (c) Vancouver-Kamloops: the route served 8,500 passengers in 1964 and 50,000 passengers in 1971. Again the projection is for a 15% per year gain for the foreseeable future. (Table V).
- (d) Edmonton-Inuvik: the Northern routes connecting Edmonton, Inuvik, Resolute, Yellowknife, etc. are forecast to grow at 15%-25% per year and could be much higher depending upon developments in those areas. The experience for the Edmonton-Inuvik route and forecasts are presented in Table VI.

B. CARGO: Cargo carried on scheduled routes is rising rapidly but still only accounts for a small proportion of the total mainline revenues.

Table II

SCHEDULED CARGO VOLUME

	<u>Years Ended December 31</u>					
	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>
Cargo carried (000) tons	1,080	789	627	371	364	302
Change	+36.9%	+25.8%	+69.0%	+1.9%	+20.5%	(-13.6%)

C. COMMERCIAL AIR FREIGHT SERVICES: PWA operates the only commercial Hercules air freight business in Canada. The Hercules operation was started in 1967 and has experienced substantial growth. The Lockheed Hercules is particularly well suited for the Company's freight traffic because of its large, 47,000-pound cargo-carrying capacity, the shape of its fuselage which allows the freighting of large, odd-size cargos and a unique capability for landing on remote and rough airstrips. The aircraft is used extensively for supplying oil and gas exploration activities as well as for general freight in Canada. January to June is the Hercules' most active period in the North. Among the oil companies serviced are Panarctic, British Petroleum, Imperial Oil etc. In the off season a substantial amount of general freighting business is done throughout the world.

This fall five Hercules were used by the Company including two on short term lease. At the time of this report four were active including one on short term lease.

Table III

HERCULES REVENUE

	<u>Years Ended December 31</u>				
	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>
Revenue from Hercules (\$000)	7,850	7,019	5,597	1,823	1,425
Change	+11.8%	+25.4%	+207.0%	+27.9%	--

Most of the increase in revenue in 1971 was derived from the last six months of the fiscal year as activity picked up in the North. The Imperial Oil and Gulf Oil discoveries in the MacKenzie Delta and the activity in the Arctic Islands suggests that this year will see a much larger percentage increase in Hercules revenue.

PWA is currently studying the feasibility of providing a regular freight service from Canada to various points in the Far East. Such a service would be provided by a Hercules freighter or a Boeing 707 jet freighter. A decision is expected within a few months.

D. INTERNATIONAL CHARTER FLIGHTS: PWA has been engaged in the charter business for a number of years. In 1967 a 153-passenger Boeing 707 fan-jet was leased to service the B.C., Alberta and Saskatchewan markets. In June, 1969, another Boeing 707 was leased for one year on a pay-as-used basis. This second aircraft was released in September, 1970, due to a slowdown in charter activity and generally lower fares. In 1971, tours were operated from both Eastern and Western Canada to Honolulu and Puerto Vallarta, and in 1972, the tours will be expanded to include Spain, Jamaica and Acapulco. It is possible that, as well as increased utilization of the 707, a twin-jet 737 will be used in the winter months. While considerable revenue is provided by the charter flights the operation returns only a minimal profit. However, utilization of the aircraft does cover fixed costs and contributes to earnings, therefore it is likely that the charter business will continue for the foreseeable future.

E. TRUCKING OPERATIONS: Byers Transport and Truckers Terminal Distributing were acquired in 1969 for cash and stock. Byers was a privately-owned trucking company based in Edmonton. Incorporated in 1954, the company pioneered winter road services from Yellowknife to Northern areas. Truckers was also a privately-owned company providing Edmonton with terminal facilities for a large number of common carriers. In addition, a fleet of trucks for city pickup and delivery was maintained. In late 1971, Monarch Transport, also based in Edmonton, was acquired as a complement to the existing operations.

Pacific Western Airlines and the trucking subsidiaries work together in truck/air transportation. The trucking division picks up freight and takes it as far North as roads allow e.g. Yellowknife, where it can be transferred to PWA aircraft. In this manner freight transportation costs are minimized.

Management has undertaken a thorough examination of the trucking operation and has implemented recommendations of a consultant to increase profitability to a reasonable level. \$700,000 worth of new equipment has been purchased and approximately 200 units are now operated. Revenues in 1972 from the trucking division should approximate \$3½-\$4 million.

F. NEW EQUIPMENT: A Convair 640 turboprop aircraft was delivered in the fall of 1971 and will be followed in April, 1972 by a new Boeing 737. The two aircraft will be phased into the mainland route structure as needed. The new 737 is a longer range version of the aircraft and can be used for charters as far away as Mexico if free to do so. Fleet Requirements forecasts suggest that an additional Boeing 737 will be required in each of the years 1973 and 1974. The company is also studying the economics of acquiring a tri-jet Boeing 727 in the near future.

Two turboprop Lockheed Electras were acquired in 1971 on two-year leases with options to extend one year. The aircraft are used to service Northern operations in a mixed configuration. Revenue from the two aircraft, which were operative only the last three quarters of the year, was \$1.5 million. Profit is high because of the very low lease payments. Subsequent to the year-end two more Electras have been acquired in trade for two DC-6's. One will be used exclusively for transporting fuel to the Northern areas while the second will be used for general freight and passenger use. The additional aircraft are considered necessary in order to properly meet the strong demand for air service into the far North.

G. REGULATION: The Air Transport Committee of the Canadian Transport Commission regulates all commercial air services in Canada including licenses, fares, rates and services to the public. Submissions must be made to this body to raise fares and to acquire new routes. Thus far PWA has had no major difficulty in raising fares as needed and has been successful in acquiring new routes.

II. FINANCIAL:

This section covers the earnings experience from 1966-1970, a review and analysis of 1971 results, and estimated earnings for the future.

A. FINANCIAL REVIEW - 1966-1970: From 1966 to 1970 the operations of PWA reflected the replacement of most of the piston-engined equipment with jet and propjet aircraft. In that period, no less than twelve new aircraft were incorporated into the fleet to take over most of the main-line operations and initiate the Hercules operation. This very substantial

expansion resulted in extra costs of introducing the jet aircraft in terms of terminal facilities, maintenance facilities, training crew members etc. as well as the incorporation of very heavy leasing costs into the income statements while load factors were relatively low. The financial statements show depreciation increasing from \$457,000 in 1966 to \$2,435,000 in 1970. Amortization of deferred costs of introducing new aircraft, etc., went from zero in 1966 progressively up to \$652,000 in 1970. A more meaningful indication of the company's progress can be noted from cash flow which increased from \$2.31 per share in 1966 to \$5.79 per share in 1971.

In 1970, operations were also adversely affected by a somewhat depressed economy and some hesitation by the oil companies in their far northern activities pending clarification of government policies. In addition, the acquisition of B.C. Air Lines during the year was delayed for some months, resulting in extra costs.

For the year ending December 31	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>
			- \$000-		
Gross revenue	43,509	33,944	17,659	14,974	12,280
Operating expenses	38,841	30,360	15,072	12,516	10,836
Depreciation	2,435	1,626	1,184	1,168	457
Amortization of deferred costs	652	432	205	130	--
Interest (net)	1,905	1,188	756	697	103
Earnings (loss) before tax	(325)	338	443	463	884
Income tax	(162)	194	242	237	443
Net profit (loss) from operations	(163)	144	201	226	441
Per share:					
Earnings (loss)	(\$.24)	\$.09	\$.16	\$.19	\$.53
Cash flow	\$3.85	\$2.62	\$2.34	\$2.66	\$2.31
Price range	12 $\frac{3}{4}$ -6	18 $\frac{3}{4}$ -8 $\frac{1}{4}$	16 $\frac{3}{4}$ -8 $\frac{1}{4}$	15-8 $\frac{1}{4}$	9 $\frac{3}{4}$ -4

B. 1971 RESULTS: In October, 1970, Mr. D. Watson assumed the presidency of Pacific Western Airlines and immediately undertook a cost study of the entire company. The feeling was that a company expanding as fast as PWA invariably suffers from a lack of cost control. In March, 1971, an internal task force came up with a number of recommendations, many of which have been implemented. The results are apparent in the 1971 financial statement which shows after tax earnings as \$1.4 million versus a loss of \$232,000 the year before. Total gross revenues increased 11.3% while operating expenses increased only 4.7%. The increase in revenues came primarily from the mainline scheduled flight activities, which including cargo, were up almost 30%. In addition, the level of gross revenue reflects the use of only one Boeing 707 for international charters. Inasmuch as the charters are only marginally profitable there is very little effect on net profit from these operations. The profitability of the Company was also improved through utilization of the two Lockheed Electras which were not a factor the year before. Management states, however, that the improved results are primarily due to the implementation of the cost controls systems and revised management procedures together with the intensification of sales activity.

For the year ended December 31

1971

- \$000-

Gross revenue	48,299
Operating expenses	40,813
Depreciation	2,161
Amortization of deferred costs	639
Interest (net)	1,775
Earnings (loss) before tax	2,910
Income tax	1,473
Net profit (loss) from operations	1,438
Per share:	
Earnings (loss)	\$1.46
Cash flow	5.79
Price range	13 $\frac{3}{4}$ -5 $\frac{3}{4}$

C. EARNINGS PROJECTIONS: The 1972 earnings projections below assume the following:

(a) OPERATING REVENUES:

1. Mainline: as per the long term projections contained in the Appendix (fig. 2) a conservative 15% increase in mainline revenues is estimated without giving effect to the possibility of much increased traffic on the Vancouver-Victoria-Seattle route or the effect of the new Boeing 737 which will arrive in May.
2. Charter: a 15% increase in non-international charter revenues is estimated, that is, primarily the Hercules and Lockheed Electra operations. A stable position or slight decline in international charters is expected.
3. Trucking: the trucking revenue includes the Monarch acquisition but assumes little or no growth in gross revenues of the combined companies.

(b) OPERATING EXPENSES:

1. Flying Operations: this category includes air crews, operating expenses of the aircraft, lease payments, insurance, etc. Costs in this area will likely increase in proportion to flying revenues. While insurance premiums on the existing aircraft have been reduced by \$245,000, new aircraft insurance costs plus an increase in pilots' wages, suggest that there will be little or no reduction in this item as a percentage of flying revenue.
2. Maintenance: the maintenance provision is estimated to remain in the same proportion to flying revenues as was the case in 1971.
3. Aircraft and Traffic Servicing: this expense item includes ground handling, ramp expenses, aircraft cleaning, reservations, station costs etc. The costs are expected to increase but not in proportion to the traffic increase because of the fixed component.

4. Passenger Service: this includes flight attendants' costs, food and liquor costs, and other matters relating to inflight services. An increase in this area is estimated in the order of 11%.
5. Trucking Operations: the effect of the combination of Monarch and the existing trucking operation plus the re-equipment and reorganization of the division should result in a considerable improvement in earnings. Results thus far in the current fiscal year suggest that this will be the case.
6. Marketing: little or no increase in this expense item is estimated.
7. General and Administrative: a small increase in this area is likely of about 6%.
8. Depreciation: the new Convair 640 which was delivered in November and the Boeing 737 should raise the depreciation provision by about \$400,000.
9. Amortization of Introductory Costs: this item should be about at the same level as last year.
10. Interest Charges and Amortization of Financing Expenses on Long-term Debt:
the new Boeing 737 which will be delivered in May is to be financed through a combination of a Canadian chartered bank and the U.S. Import/Export Bank. The combined rate of interest will be less than 7% and it is quite likely that similar combinations of financing will be used for the additional aircraft contemplated.

Subsequent to the 1971 year end a 14% - \$4.1 million mortgage payable on one of the Hercules aircraft was refinanced at 8 $\frac{3}{8}$ % thus effecting a considerable interest cost saving. The company is currently considering a proposal to refinance approximately \$8 million owing on an additional Hercules (interest rate currently 11%) and a Boeing 737 (interest rate currently 12%) at approximately 2% over the prime bank rate.

The ability of the company to purchase new aircraft and refinance existing aircraft at these very attractive rates is evidence of PWA's financial maturity. It follows that the leverage inherent in the airline is enhanced to a considerable degree by these favourable financing rates. A reduction in interest costs due to the refinancing of the existing aircraft should result even after taking into account the financing costs of the new Boeing 737.

Our estimate therefore is for earnings of approximately \$2.27 million versus \$1.4 million last year. This is equal, after preferred dividends, to approximately \$1.97 per share versus \$1.46 per share in 1971. Additional calculations suggest earnings equal to approximately \$2.50 per share are possible in 1973. While the earnings increases estimated are large it should be recognized that the leverage inherent in this operation is considerable and in fact the estimates may be conservative.

1972 EARNINGS PROJECTIONS

1972 year ending December 31

- \$000-

Operating Revenues:

Mainline Passenger, Cargo and Mail	34,713
Charter	16,400
Trucking Operations	4,300
Total Operating Revenues	55,413

Operating Expenses:

Flying Operations	18,849
Maintenance	8,962
Aircraft and Traffic Servicing	7,587
Passenger Service	2,250
Trucking Operations	3,750
Marketing	1,800
General and Administrative	2,900

Total Operating Expenses 46,098

Operating Income Before Depreciation and Amortization	9,315
Depreciation	2,580
Amortization of Introductory Costs	630
Operating Income	6,105
Other Income	250
Interest and Amortization of Financing Expenses	1,800
Earnings Before Income Tax	4,555
Deferred Income Tax	2,290
Net Earnings	2,265

Earnings Per Common Share \$2.16

Earnings per average share assuming full conversion
of the Series AA convertible debentures and exercise
of an option for 30,000 shares by CAE Industries \$1.97

III. MANAGEMENT:

Mr. Donald M. Watson - President: Mr. Watson has a broad background in the airline industry beginning in 1935. In his career he has become both a qualified pilot and air mechanic and during the war was involved in the organization of technical, flying and administrative functions for the British Commonwealth Air Training Plan. Following the war he was involved in several aspects of the flying industry and in 1949 joined the Ontario Central Airlines and was managing director prior to joining Pacific Western in 1958 as Assistant to the Vice-President and General Manager. From 1964 to October 1971 he was Vice-President of Management and Technical Services following which he was elected President.

Mr. W.R. Harris - Vice-President and General Manager: is a chartered accountant with a long history of management and has been with PWA since 1957.

Mr. D.F. Granger - Vice-President Finance and Secretary: is a chartered accountant and has been actively involved with the airline industry since 1951.

TABLE I

PWA ROUTE MAP

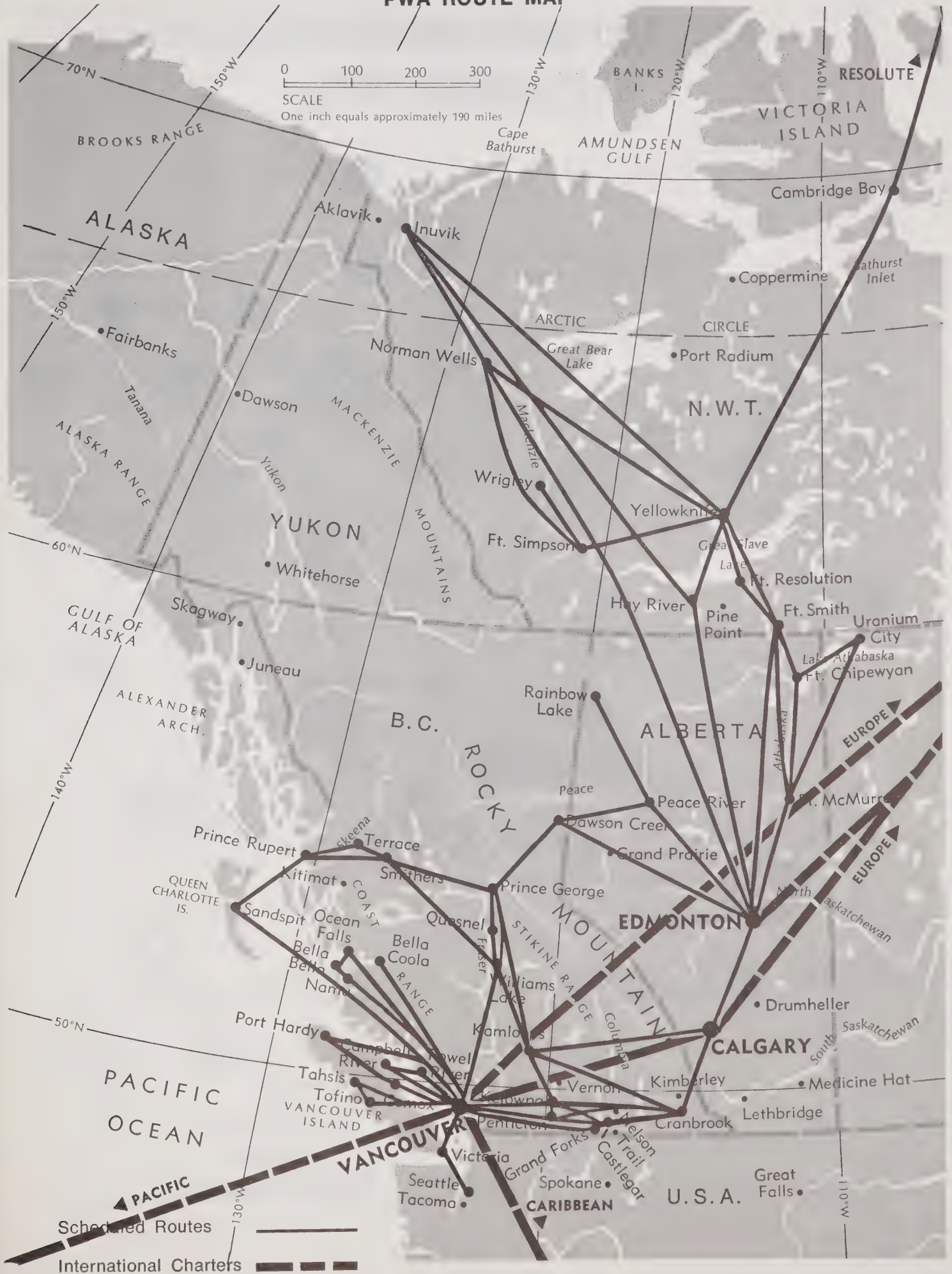
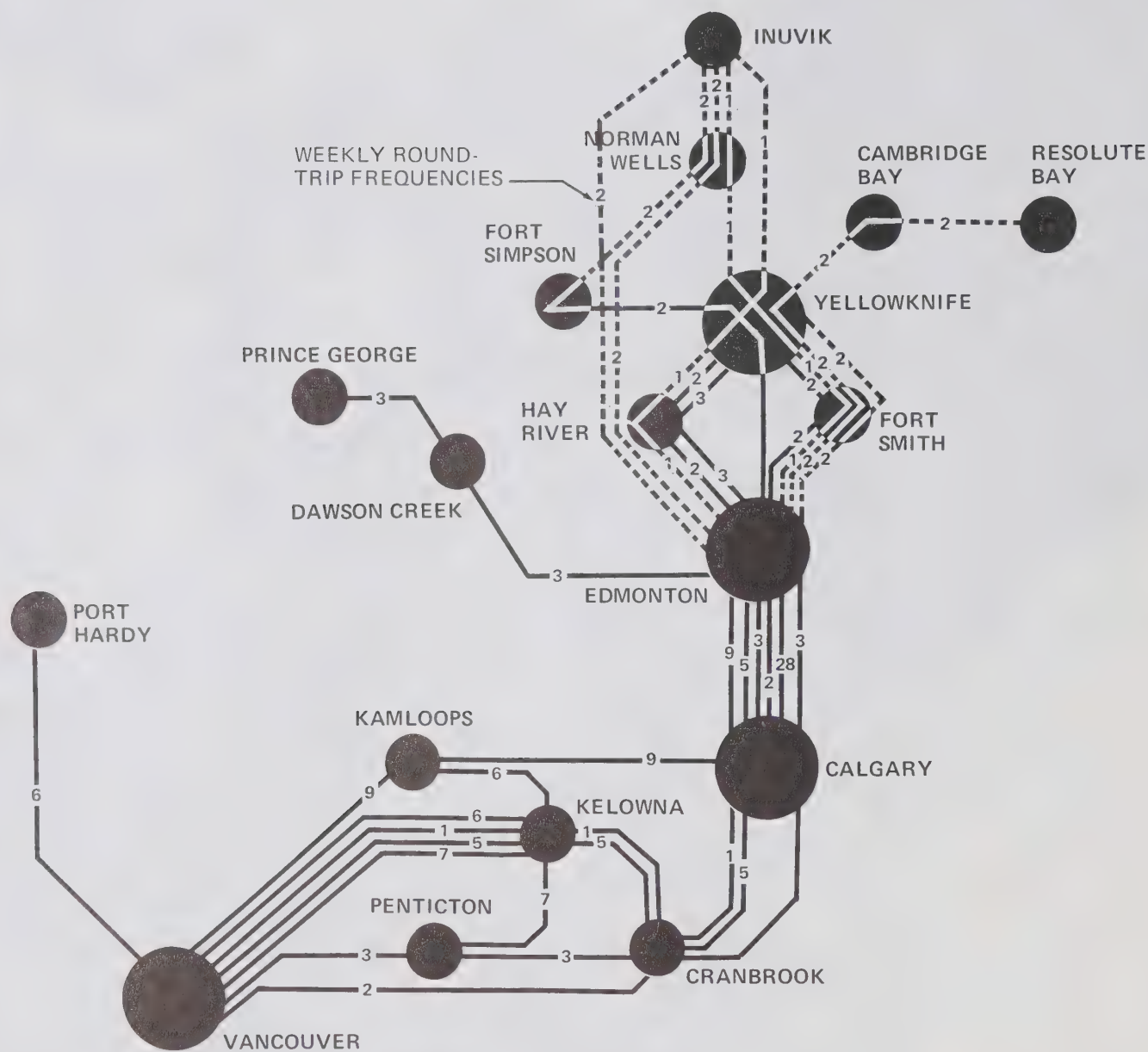


TABLE 1A

737-200 MAINLINE SYSTEM

SEPTEMBER 1972



737-200 SYSTEM

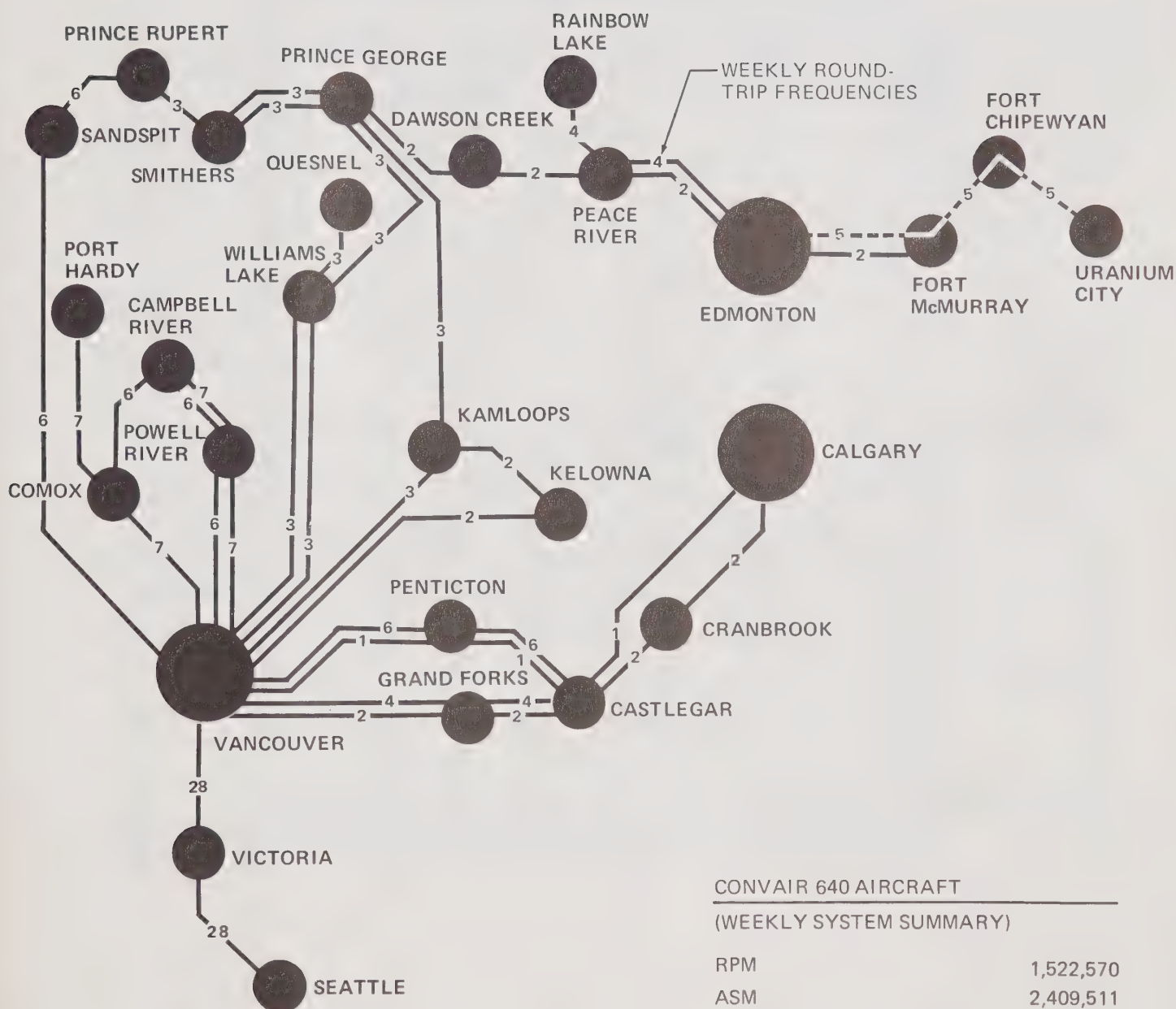
(WEEKLY SYSTEM SUMMARY)

—— PASSENGER AIRCRAFT
 - - - - MIXED-CONFIGURATION AIRCRAFT

RPM	5,107,345
ASM	8,329,496
LOAD FACTOR	61.3%
AVG. SEG. LENGTH (STATUTE MILES)	230
NO. OF AIRCRAFT	5
UTILIZATION (HRS/AIRCRAFT/WEEK)	54.21

CONVAIR 640 MAINLINE SYSTEM

SEPTEMBER 1972



CONVAIR 640 AIRCRAFT

(WEEKLY SYSTEM SUMMARY)

RPM	1,522,570
ASM	2,409,511
LOAD FACTOR	63.2%
AVG. SEG. LENGTH (STATUTE MILES)	120
NO. OF AIRCRAFT	5
UTILIZATION (HRS/AIRCRAFT/WEEK)	55.75

TABLE II

PACIFIC WESTERN AIRLINES

(MAINLINE SYSTEM)

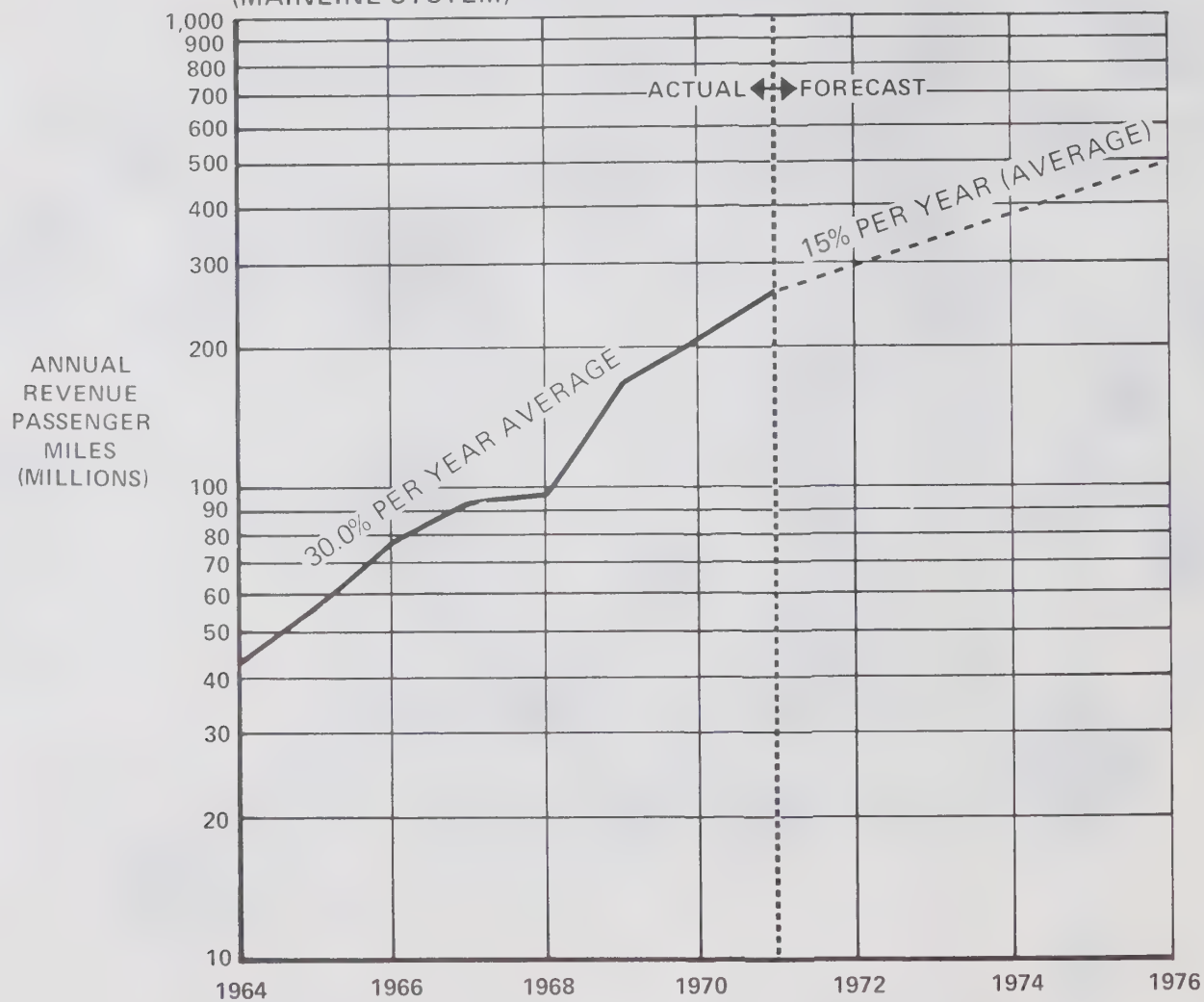


TABLE III

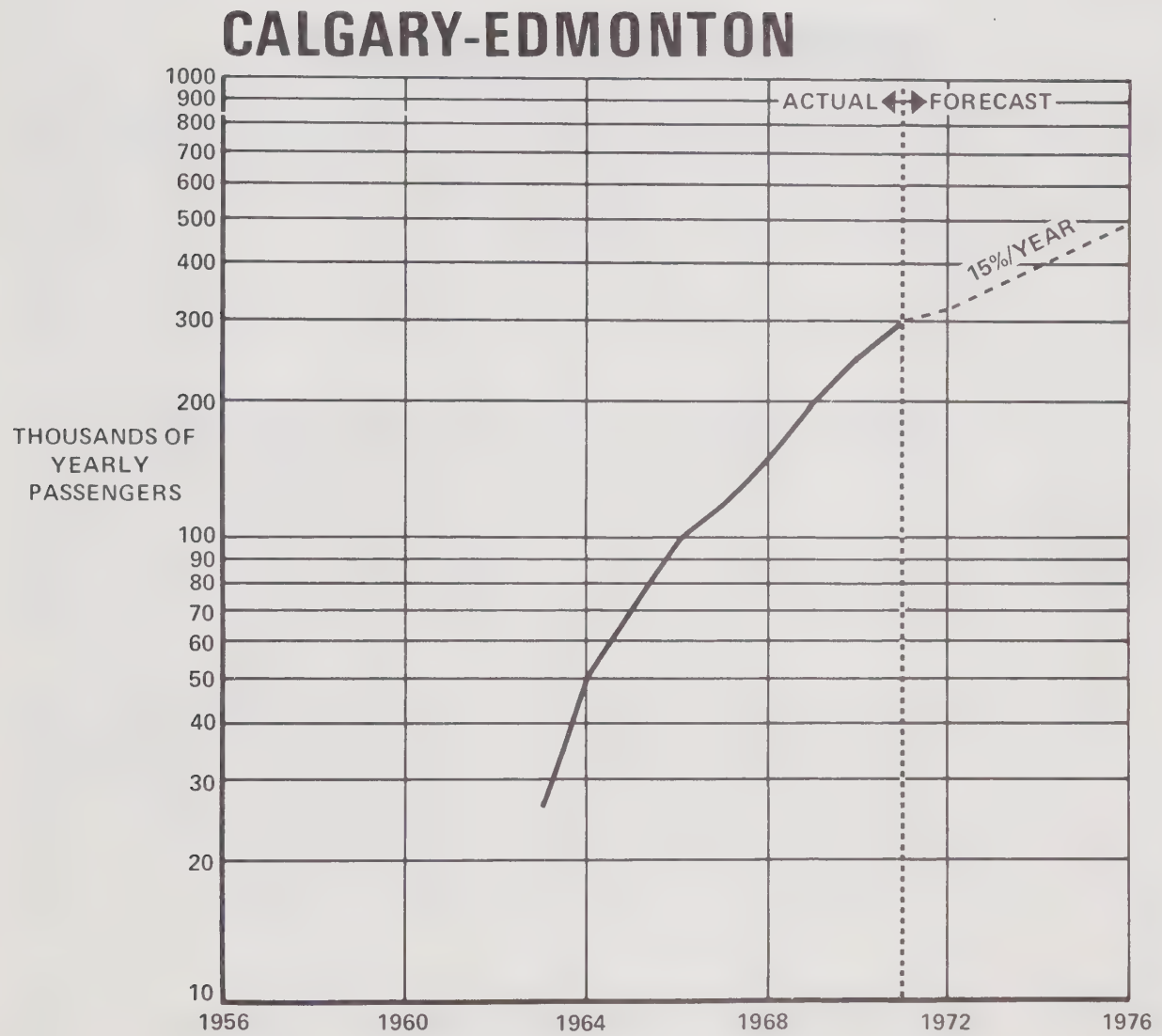


TABLE IV

KELOWNA-VANCOUVER

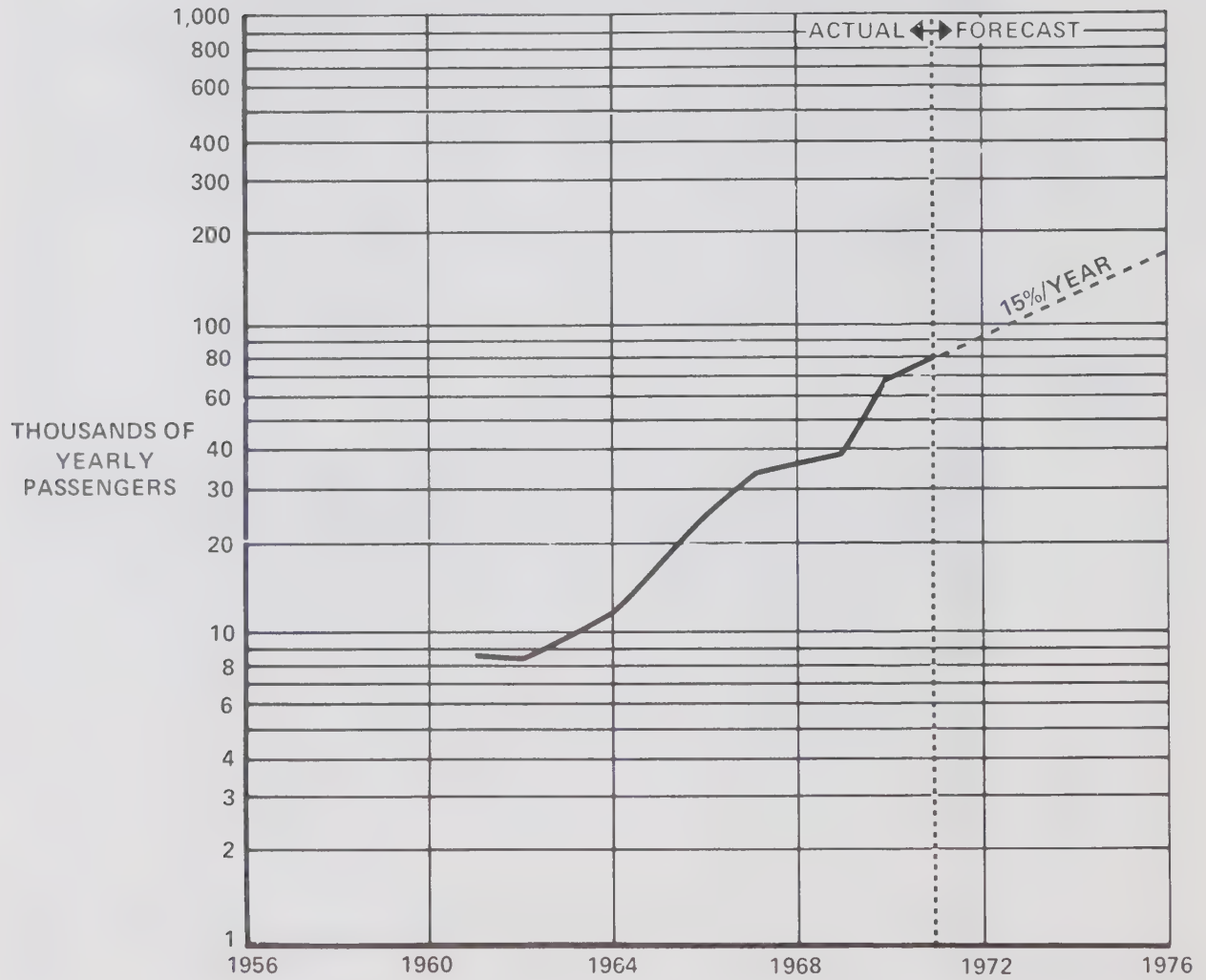


TABLE V

KAMLOOPS-VANCOUVER

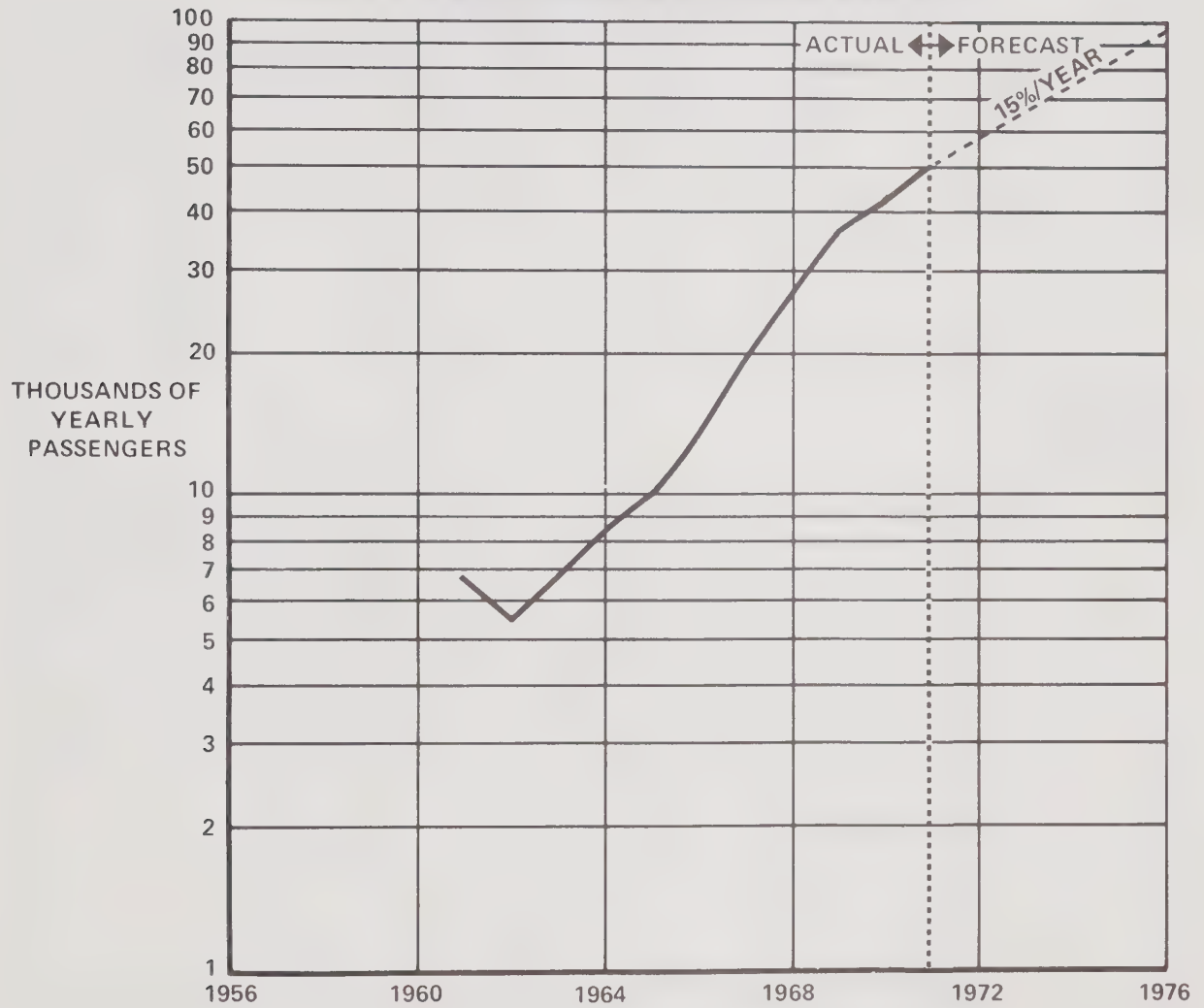
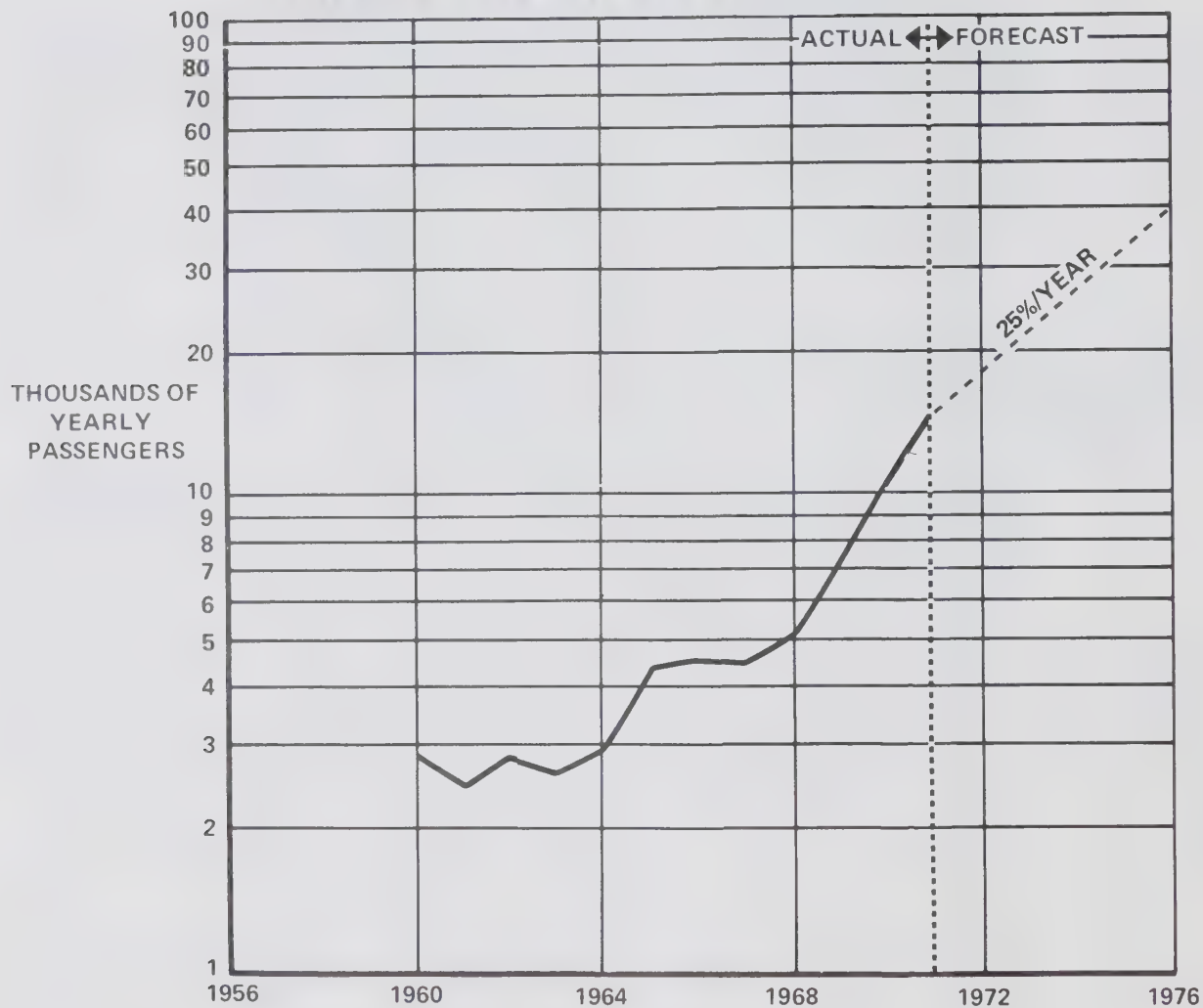


TABLE VI

EDMONTON-INUVIK



Pemberton Securities

LIMITED

MEMBERS OF:

INVESTMENT DEALERS' ASSOCIATION OF CANADA
B.C. BOND DEALERS' ASSOCIATION

VANCOUVER STOCK EXCHANGE
THE TORONTO STOCK EXCHANGE
MIDWEST (CHICAGO) STOCK EXCHANGE

BOARD OF DIRECTORS:

President & Chief Executive Officer
JOHN G. CHASTON

Chairman
WILFRID J. BORRIE

— NOTE: ALSO ON BOARD
OF PACIFIC WESTERN.

Senior Vice President
W. ROBERT WYMAN

Vice President
JOHN E. SMART
GORDON B. ANDERSON
WILLIAM C. EILERS

Secretary-Treasurer
VALENTINE A. CHRISTIE

JOHN A. BOYD
JAMES M. BRICKLEY
GEORGE E. FANSTONE
GEORGE H. EVANS
FREDERICK J.S. MARTIN

the addition to present schedules of only one flight per week. Also authorized was a licence to your company to serve Vancouver - Victoria - Seattle, subject to the approval of United States regulatory authorities. Concurrent with inauguration of this service, now planned for mid-September, Air Canada will withdraw from the Victoria-Seattle segment of the route and reduce its Vancouver-Victoria frequency by a number of flights equal to those which we will operate between the three points (a minimum of 4 daily in the summer months and 3 daily in the winter months).

As reported to you in our letter of July 17, negotiations to purchase B. C. Air Lines have been concluded, subject to approval of the Governmental authorities concerned. We still anticipate this arrangement will be satisfactorily concluded by mid-August and are actively planning to complete integration of the B. C. Air Lines operation with our own by mid-September. Increased revenues from this source will be attended with the elimination of existing duplication of services and administrative functions.

In keeping with the company's expanded services and market area a recent re-organization of our Marketing and Customer Services staff has been designed to place emphasis on effective development of our new markets and on searching out and promoting new avenues of revenue growth.

Respectfully submitted,



B. C. SAMIS, *Chairman of the Board*



R. H. LAIDMAN, *President*



**REPORT FOR
FIRST SIX MONTHS
1970**

PACIFIC WESTERN AIRLINES LTD.

and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS

For the six month period ending June 30, 1970
(with comparative figures for 1969)

	(in thousands of dollars)	
	1970	1969
OPERATING REVENUES:		
Passenger	\$8,436	\$ 6,433
Cargo	1,260	990
Mail	488	430
Charter	9,106	6,841
Trucking	1,556	986
	<u>20,846</u>	<u>15,680</u>
OPERATING EXPENSES:		
Flying operations	7,575	5,225
Maintenance	2,857	2,513
Aircraft and traffic servicing	3,515	2,470
Passenger service	1,016	712
Selling and advertising	1,002	573
General and administrative	1,232	931
Trucking	1,457	804
	<u>18,654</u>	<u>13,228</u>
Operating income before depreciation and amortization	<u>2,192</u>	<u>2,452</u>
Depreciation	1,207	843
Amortization of introductory costs	272	179
	<u>1,489</u>	<u>1,022</u>
Operating income	713	1,430
Interest and amortization of financing expenses	976	592
	<u>(263)</u>	<u>838</u>
Earnings before deferred income taxes	(263)	838
Deferred income taxes	<u>(123)</u>	<u>421</u>
Earnings before loss on sale of equipment	(140)	417
Loss on sale of equipment, net of income taxes thereon	(12)	(11)
Net earnings for the period	<u>\$ (152)</u>	<u>\$ 406</u>

() denotes loss

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
For the six month period ending June 30, 1970
(with comparative figures for 1969)

	(in thousands of dollars)	
	1970	1969
FUNDS PROVIDED BY:		
Operations:		
Net earnings for the period	\$ (152)	\$ 406
Add charges (net) not requiring cash expenditures including depreciation, amortization, deferred income taxes and increase in provisions for overhauls	2,178	1,949
Funds provided by operations	2,026	2,355
Proceeds from sale of equipment and refund of equipment deposits	154	191
	<u>\$2,180</u>	<u>\$2,546</u>
FUNDS APPLIED TO:		
Purchase of equipment	\$2,130	\$6,108
Less amount financed through long-term debt . . .	505	5,204
	1,625	904
Reduction of long-term debt	1,621	1,005
Redemption of 7% Convertible Sinking Fund Debentures Series AA	107	51
Introductory costs of new aircraft and services.	311	358
Deposits on purchase and lease of new equipment . .	-	646
Dividends on preferred shares	31	31
Purchase of shares in Byers Transport Ltd. and Truckers Terminal Distributing Co. Ltd.	-	385
Sundry	22	17
	<u>3,717</u>	<u>3,397</u>
Decrease in working capital	1,537	851
	<u>\$ 2,180</u>	<u>\$ 2,546</u>

() denotes loss

NOTE: In the opinion of management only nominal taxes will be payable for several years. However, provision has been made for deferred taxes at the full rate in order to conform with a recommendation of the Canadian Institute of Chartered Accountants.



INTERIM REPORT FOR THE SIX MONTH PERIOD ENDING JUNE 30, 1970.

TO THE SHAREHOLDERS:

We are pleased to submit a report of your company's activities and financial results for the six-month period January 1, 1970 to June 30, 1970.

Our results for the first six months of 1970 are disappointing. Consolidated gross revenues increased 33% during the first half of 1970 as compared with the previous year, but operating expenses increased still more to result in an operating income of \$2,192,000 for the period, compared with \$2,452,000 in 1969. In addition, financial expense including depreciation, amortization of introductory costs of new equipment and routes, and interest on debt increased by \$841,000, which combined to produce a net loss for the period of \$152,000 after deferred income tax adjustments.

The increased depreciation and financing costs related to the addition of a third Hercules and to the two additional Boeing 737 aircraft put into service since June of last year, almost entirely account for the deterioration in the net results for the period.

Cash generation for the period is \$2,180,000 and compares with \$2,546,000 generated in the same period of 1969. An amount of \$2,130,000 for purchase of equipment, of which \$505,000 was financed through long-term debt, represents the balance of spare parts and support equipment required for the present aircraft fleet. No further capital expenditures are anticipated for the balance of the year, other than for normal replacements.

In spite of the fall-off of revenue from forecast projections, as a result of economic

conditions, mainline services revenues have increased by 30% compared with the same period in 1969, and fortunately account for more than 50% of the company's total revenue. These revenues of course include six months results of our new services as compared with two months last year.

The concentration of charter freighting operations in the first six months of 1969, were largely responsible for the satisfactory financial results of that period. Mostly because of a resistance to exploratory and developmental spending, and partly due to unusually warm weather conditions in the far north causing early deterioration of airstrips and creating fog conditions, charter aircraft utilization and revenues in 1970 have been below expectations.

All practical economies in operation have been instituted in recent months to meet the changed and deteriorated economic factors affecting our traffic. Re-arrangements of schedules have resulted in a reduction of some personnel, as well as being designed to take full advantage of all revenue possibilities; Hercules aircraft have been placed in Europe to improve their utilization pending resumption of increased late 1970 activity in the north; and International passenger charter operations have been rescheduled wherever possible to minimize ferry, or non-revenue, flying.

The acquisition of our own flight kitchens has enabled us to reduce catering costs from last year's levels, through cost and production controls, as compared with a substantial price increase proposed by the previous supplier.

Byers Trucking operations have increased their volume substantially and improved their market position.

Air service between Calgary and Lethbridge by Time Airways replaced the former once-daily Air Canada service on July 1, as a result of a Canadian Transport Commission decision. Simultaneously, Air Canada withdrew its local services between Calgary and Edmonton. As a consequence, AirBus traffic between the two points has increased significantly, while requiring

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REPORT FOR
FIRST SIX MONTHS
1969

PACIFIC WESTERN AIRLINES LTD.

and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS

For the six month period ending June 30, 1969
(with comparative figures for 1968)

(in thousands of dollars)
1969 **1968**

OPERATING REVENUES:

Passenger	\$ 6,433	\$ 3,987
Cargo	990	736
Mail	430	346
Charter	6,979	3,009
	<u>14,832</u>	<u>8,078</u>

OPERATING EXPENSES:

Flying operations	5,225	2,540
Maintenance	2,513	1,558
Aircraft and traffic servicing	2,470	1,492
Passenger service	712	458
Selling and advertising	573	515
General and administrative	931	672
	<u>12,424</u>	<u>7,235</u>

Operating income before depreciation and
amortization

2,408 843

Depreciation

809 607

Amortization of introductory costs

179 60

Operating income

1,420 176

Interest and amortization of financing expenses

582 465

Earnings before deferred income taxes

838 (289)

Deferred income taxes

421 —

Earnings before gain on sale of equipment

417 (289)

Gain on sale of equipment

(11) 165

Net earnings for the period

\$ 406 \$ (124)

() denotes loss.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the six month period ending June 30, 1969
(with comparative figures for 1968)

	(in thousands of dollars)	
	1969	1968
FUNDS PROVIDED BY:		
Operations:		
Net earnings for the period	\$ 406	\$ (124)
Add charges (net) not requiring cash expenditures including depreciation, amortization, deferred in- come taxes and increase in provision for overhauls	1,949	647
Funds provided by operations	2,355	523
Proceeds from sale of equipment	191	871
Current portion of debentures of Northward Aviation Ltd.	—	100
	<u>\$ 2,546</u>	<u>\$ 1,494</u>
FUNDS APPLIED TO:		
Purchase of equipment	\$ 6,108	\$ 514
Less amount financed through long-term debt	5,204	—
	904	514
Reduction of long-term debt	1,005	579
Redemption of 7% Convertible Sinking Fund		
Debentures Series AA	51	—
Introductory costs of new aircraft and services	358	327
Deposits on purchase and lease of new equipment	646	96
Dividends on preferred shares	31	31
Purchase of shares in Byers Transport Ltd. and Truckers Terminal Distributing Co. Ltd.	385	—
Sundry	17	50
	<u>3,397</u>	<u>1,597</u>
Decrease in working capital	851	103
	<u>\$ 2,546</u>	<u>\$ 1,494</u>

() denotes loss.

NOTE: In the opinion of management only nominal taxes will be payable for several years. However, provision has been made for deferred taxes at the full rate in order to conform with a recommendation of the Canadian Institute of Chartered Accountants.



**INTERIM REPORT FOR THE SIX MONTH
PERIOD ENDING JUNE 30, 1969**

TO THE SHAREHOLDERS:

We are pleased to submit a report of your Company's activities and financial results for the six-month period January 1, 1969 to June 30, 1969.

For the first time in its history Pacific Western Airlines Ltd. has shown a profit from operations for the first half of the year. Gross revenues of \$14,832,000 for the first six months of 1969 are 83 percent higher than for the same period of last year. Gross operating income increased by 186 percent to \$2,408,000. Net earnings, before gains or losses on sales of fixed assets and before allowing for deferred income taxes, amounted to \$838,000 compared with a net loss of \$289,000 in the comparable period of 1968, or an overall improvement of \$1,127,000. All divisions of the Company contributed to this result. Mainline revenues, which included our new routes, were stimulated to an extent by the Air Canada strike. The earnings of Byers Transport and Truckers Terminal are included for the first time.

This tremendous increase in activity, some of it not possible to forecast, has resulted in the acquisition of an additional Boeing 737 to be delivered July 31st, bringing the 737 fleet to three, with the fourth aircraft, originally the third on order, still to be delivered in February 1970. To meet the demand for contract freight operations, a third DC-4 freighter was acquired this month. A third Hercules has been ordered for delivery in December to further support northern freight requirements. In addition, arrangements were concluded to acquire a second Boeing 707 to support our international charter operations, which was delivered on July 20th. These acquisitions were arranged through lease-purchase and straight lease agreements.

Out of cash generation the Company has retired \$1,005,000 of long-term debt and made deposits of \$1,550,000 on the purchase and lease of new equipment. Our investment in Byers Transport and Truckers Terminal, plus provision for deferred costs applicable to new aircraft and routes, has resulted in a working capital deficit as of this date.

Your Company's application for a licence to provide AirBus service between Vancouver and Edmonton Industrial Airport has been advertised to give opportunity for intervention by others, and our rebuttals to such interventions have been filed. The application is now in the hands of the Air Transport Committee of the Canadian Transport Commission for final disposition, and an early decision is anticipated.

We are generally pleased with the route awards and transfers to which we have previously referred. We do however still question the restrictions that have been placed on us with regard to any effective competition we can provide while our competitor goes non-stop. We were denied any chance to compete at all on a one-stop basis between Vancouver and Prince George, yet a tertiary carrier has been allowed unrestricted operations in competition with your Company in the southwestern portion of British Columbia, where no competition existed before.

Your Company's acquisition of Byers Transport Ltd. and Truckers Terminal Distributing Co. Ltd. in April has solidified our market position for heavy freighting in the north and this refinement of our truck-air concept will, we believe, be a tremendous boon to the development of that area.

We regret to report an accident which destroyed one of our Hercules aircraft in Peru on July 16, 1969. Fortunately, there were no injuries. Full insurance coverage will enable the Company to acquire a replacement. Another Hercules has been obtained on a temporary charter in order to fulfill our contracts.

The rate and extent of the Company's expansion is indicated in the increase in employees from 721 to 1095 during the six-month period. This expansion which has possibly been more correctly referred to as an explosion has imposed greatly increased responsibilities on management and staff. Great credit is due to them in enabling Pacific Western Airlines to achieve these excellent results.

Respectfully submitted,

B. C. SAMIS, Chairman of the Board

R. H. LAIDMAN, President

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situation and we may soon be back to normal operations.

Early in the year, it became evident that we could not respond to the traffic demand without an additional Convair 640. After extensive study the acquisition of a fifth Convair from General Dynamics was concluded for September 1971 delivery. In addition to the financing of this aircraft by General Dynamics, we were able to accomplish an extension of the balloon note referred to in Note 10 of the 1970 annual report involving \$1,735,000 U.S. which was to mature March 31, 1972. Special financing which might have been necessary for this has now been obviated. At the same time our planning group, in conjunction with the Boeing Company and the use of the Boeing computer, concluded a detailed study and up-dated our fleet plan to 1974. It is clearly necessary that an early order be placed for a May 1972 delivery of the fifth Boeing 737.

The type of sound earnings experienced during this period must be continued if the company is to meet its operational growth challenges. The accomplishment of the improved financial results was to a great extent the product of a three-man company task force who concluded a three and one half month study of every segment of the company. Many departmental reorganizations took place and all seem to be functioning very well now. The motivation and spirit with which all of the officers and staff took on the challenge was uniformly outstanding.

Respectfully submitted,



B. C. SAMIS, Chairman of the Board



DONALD WATSON, President



REPORT FOR
FIRST SIX MONTHS
1971

PACIFIC WESTERN AIRLINES LTD.

and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS

For the six month period ending June 30, 1971

(with comparative figures for 1970)

	(in thousands of dollars)	
	1971	1970
OPERATING REVENUES:		
Passenger	\$11,911	\$8,436
Cargo	1,549	1,260
Mail	606	488
Charter	8,138	9,106
Trucking	1,477	1,556
	<u>23,681</u>	<u>20,846</u>
OPERATING EXPENSES:		
Flying operations	8,117	7,575
Maintenance	3,871	3,689
Aircraft and traffic servicing	3,283	2,704
Passenger service	918	1,016
Selling and advertising	843	1,002
General and administrative	1,225	1,232
Trucking	1,430	1,532
	<u>19,687</u>	<u>18,750</u>
Operating income before depreciation and amortization	3,994	2,096
Depreciation	1,080	1,207
Amortization of introductory costs	293	272
	<u>2,621</u>	<u>617</u>
Operating income	2,621	617
Interest and amortization of financing expenses	1,019	976
Earnings (loss) before provision for future income taxes	1,602	(359)
Provision for future income taxes (Note 1)	858	(190)
Earnings (loss) before loss on sale of equipment	744	(169)
Loss on sale of equipment, net of income taxes thereon	(10)	(12)
Net earnings (loss) for the period	<u>\$ 734</u>	<u>\$ (181)</u>
Per Share of Common Stock		
Cash flow from operations	<u>\$ 3.07</u>	<u>\$ 1.93</u>
Net earnings (loss)	<u>\$.76</u>	<u>\$ (.23)</u>
Fully diluted (net) earnings (Note 3)	<u>\$.65</u>	

CONSOLIDATED STATEMENT OF CHANGE IN WORKING CAPITAL

For the six month period ending June 30, 1971

(with comparative figures for 1970)

	(in thousands of dollars)	
	1971	1970
FUNDS PROVIDED BY:		
Operations:		
Net earnings (loss) for the period	\$ 734	\$(181)
Add charges (net) not requiring cash expenditures including depreciation, amortization, deferred income taxes and change in provisions for overhauls	2,143	2,003
Funds provided by operations	2,877	1,822
Proceeds from sale of equipment and refund of equipment deposits	65	154
	<u>\$2,942</u>	<u>\$1,976</u>
FUNDS APPLIED TO:		
Purchase of equipment and land	\$ 559	\$2,130
Less amount financed through long-term debt . .	45	505
	514	1,625
Reduction of long-term debt	3,484	3,621
Redemption of 7% Convertible Sinking Fund Debentures Series AA	280	107
Introductory costs of new aircraft and services . . .	204	311
Deposits on purchase and lease of new equipment . .	62	—
Dividends on preferred shares	31	31
Sundry	(2)	22
	4,573	5,717
Increase (Decrease) in working capital before bank term loan	1,069	(1,741)
Bank term loan transferred to current liabilities	(2,700)	(2,000)
	<u>\$2,942</u>	<u>\$1,976</u>

- NOTE: 1. In the opinion of management no taxes will be payable for several years. However, provision has been made for deferred taxes at the full rate in order to conform with a recommendation of the Canadian Institute of Chartered Accountants.
2. The 1970 figures, shown for comparative purposes, have been changed to reflect the change in accounting practice during the latter part of 1970.
3. Earnings per Common Share on a fully diluted basis reflects issue of additional shares in the event of options being exercised on 42,000 Common Shares and the holders of \$3,088,000 of 7% Convertible Sinking Fund Debentures Series AA exercising their right to convert the debentures to 216,160 common shares.



**INTERIM REPORT FOR THE SIX MONTH
PERIOD ENDING JUNE 30, 1971.**

TO THE SHAREHOLDERS:

We are pleased to submit herewith an unaudited report of your company's activities and financial results for the six-month period January 1, 1971 to June 30, 1971.

The first six months of 1971, we are confident you will agree, are gratifying when compared with the same period of 1970. Consolidated gross revenues increased 14% during the first half of 1971 to \$23,681,000 and at the same time, operating expenses were held to an increase of 5% to \$19,687,000, producing operating income of \$3,994,000 compared with \$2,096,000 in 1970.

The cash flow from operations during this period in 1971 amounted to \$2,845,000 or \$3.07 per common share, an improvement of \$1,056,000 and \$1.14 per share over the same period in 1970.

After interest expense of \$1,019,000, depreciation of \$1,080,000 and amortization of deferred start-up charges of \$293,000, net earnings of \$1,602,000 were achieved. This is a swing of \$1,961,000 from the loss of \$359,000 in the same period of 1970. With the present growth rate of the company and its requirement to respond to the opportunities it develops, management does not expect that any income taxes will be paid in the foreseeable future -- however, in accordance with accepted accounting principles, we have provided \$858,000 for deferred income taxes, leaving a net earning per share after such provision of 76¢. This compares with a net loss of 23¢ per share for the same period for the year 1970.

The improved results are almost entirely due to the implementation of cost control systems and revised management procedures, coupled with an intensification of sales activity.

Your company is in its twenty-fifth year of operations, starting from a meagre beginning and advancing to one of the world's most recognized airlines at the present time. It is also fortunately coincidental that your airline will be celebrating its 25th anniversary during the centennial year of its birthplace province.

Your Hercules operations have been much better this year than ever before. After a very successful winter in the Arctic they have been sent out to all parts of the

world on their summer tasks. At one time during the week of July 12, one aircraft was hauling for the Australian Government from Singapore to Katmandu, Nepal; another was working from Manila and Hong Kong to Vancouver and Calgary, then back to Tokyo, Hong Kong and Manila on a long series of flights; and the third aircraft, just off a job at La Paz, Bolivia, was working from Tromso in Northern Norway to Nord, Greenland (the most northerly point), where no ship has been for fifty-three years.

At the same time, we were serving the forty-four points on our own scheduled route system; the two Lockheed Electras acquired during the first six months were busy on their vertical Arctic re-supply; and the Boeing 707 International Charter aircraft was making its daily flight from Western Canada to the U.K. and Europe. Also, many incidental weekend charter movements of air cadets and school groups were being carried out. Pacific Western's symbol is not only recognized but respected in almost every country of the free world.

No doubt the media has made you all aware of the serious price war taking place in the international charter market and more particularly, on the North Atlantic. While the effect on your operations this year is mild, it could have a more serious effect next year if the regulatory authorities of all countries involved do not step up to their responsibilities of properly regulating these operations. We are aware of the problems and are taking steps to have alternate work available for this equipment so that its operation should be no burden on the company in 1972.

Byers Trucking operations, while providing a very useful and complementary operation to Pacific Western in the area of the truck-air freight concept and in ground handling, has not been advancing at the rate we expect and desire and steps are presently underway to improve the performance of this operation.

The Vancouver/Victoria/Seattle operations acquired from Air Canada have been satisfactory and continue to generate new traffic on the Victoria/Seattle segment. However, on April 25 Air Canada put an additional four flights per day on the Vancouver/Victoria segment bracketing two of our prime flights and seriously affecting our traffic.

The B. C. Air Lines acquisition has been fully integrated and the results are more than satisfactory. No new route acquisitions are anticipated in 1972.

In May, the Ministry of Transport attempted a close down of the Edmonton Industrial Airport which is owned by the City of Edmonton. Negotiations of the strongest possible nature were commenced by your company and some relief from the shutdown was achieved causing the dislocation of only two flights per day to Edmonton International. This was a substantial addition to our costs. Subsequent negotiations have further improved the

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File

ADDRESS BY R. H. LAIDMAN, PRESIDENT OF PACIFIC WESTERN AIRLINES
TO THE ANNUAL GENERAL MEETING OF THE COMPANY - APRIL 21, 1969.

AR30

The tremendous increase in volume of traffic carried by Pacific Western over a ten year period becomes very obvious when comparing results for the first three months of 1969 with the results for the entire year of 1959.

In the first three months of 1969, Pacific Western carried 108,000 passengers on mainline services, or 12,000 more than in all of 1959. At the same time we flew more than three times the large aircraft charter miles and nine times the charter tonnage of 1959; - and we flew 326,000 international charter miles, and carried 13,640 passengers, to Puerto Vallarta, Hawaii, Europe and mainland United States' cities.

The first three months of 1969, compared to the same period of 1968 shows an even more rapid rate of growth. Total revenues from all services increased 55% to \$ 5,170,073, while cash operating expenses increased by 45%. After including depreciation, amortization and interest expense, the net position at the end of the first three months shows a quarter of a million dollar improvement as compared with the same period of 1968.

There is no evidence at this time that the revenue increase on existing mainline services enjoyed in the first three months should not be maintained at the same rate for the rest of the year. Added to this will be a full year's revenue from the Stampeder Service to Kamloops and Calgary; from the Okanagan/East Kootenay services to be inaugurated

next Sunday; and from the expanding coastal services to Sandspit, Prince Rupert and across to Prince George. The second Boeing 737, and fifth DC6, both went into service in March, and have added substantially to the company's productive capability, particularly in the charter field where demand is extremely high as a result of the increased level of general activity in the areas your company serves. On March 30th, a second Hercules was acquired and put to work the same day. During the last two weeks, two additional DC-4 freight aircraft have been sub-contracted for short periods from two other Canadian carriers to meet the heavy freight demand of the normal spring airlift prior to break-up and to support the greatly increased oil exploration activity in the Mackenzie area and the Arctic Islands. This requirement alone is expected to fully occupy both Hercules for at least the next several months. The third Boeing 737 on order is now expected to be delivered in February, 1970.

Unit costs continue to increase, however, which is not surprising when we recognize the 16% rise in the cost of living during the last four years, and the influence such inflation has in the fields of wages and cost of services. We were able to refrain from increasing fares and rates last year, when other airlines instituted higher charges by as much as 10% for their services.

This year, however, in order to meet the increased costs which we face, particularly in the area of sharply higher airport rental rates, fees and charges at several points, the addition of a 200% increase last year in provincial taxes on aviation fuel purchased in Alberta and other taxes recently imposed by all levels of government, we have announced an increase in fares and rates on existing services approximating 5% which will become effective with the summer schedule next Sunday - April 27th. Senior officials of the company have recently met with elected officials and business organizations in the communities we serve, to explain the need and the reasons for, the increase. In almost all cases, we received a sympathetic hearing and an appreciation of the reasonableness of the increase which, because of the introduction of turbine-powered aircraft with their improved technology and greater productivity, is considerably less onerous than would otherwise be necessary.

Everyone at Pacific Western is looking forward eagerly to the challenge of the major expansion of domestic scheduled services presently underway, including the more than 190 new employees added to the payroll since January 1st, which brings the staff today to 928.

(Incidentally, some of us were guests at a Civic Luncheon in Kelowna the day before yesterday, to mark the occasion of the impending service changes in the Interior. The friendly welcome we received, and are receiving throughout the entire area, was almost overwhelming. It made those of us that were there very proud to be associated with a company that is being so enthusiastically accepted where we have not operated extensively before, and that is being extended every possible

co-operation and support. It also reminded us of our responsibility, as a service organization, to ensure that we perform to a standard in keeping with the high expectations of our new clients.)

(As a further indication of the general interest in Pacific Western, you will be pleased to know that more than 3,000 residents of the Kelowna area walked through a Boeing 737 in a four hour period while it was on display at Kelowna on Saturday, and another 3,500 toured the aircraft later the same day in Penticton. Yesterday, at Castlegar and Cranbrook, an additional 4,000 visited the aircraft, and after that the aircraft stopped at Calgary and operated an AirBus extra section to Edmonton with 87 passengers.)

We are generally pleased with the route awards and transfers granted under the guidelines of the Regional Air Policy. The advent of a third level carrier concept to serve smaller communities, or points where less than adequate facilities exist for modern mainline aircraft, is a new development to the policy which has some merit. It enables such communities to enjoy local air services to conveniently connecting mainline services operated by Pacific Western and CP Air.

However, unlimited competitive licensing was not contemplated in the original policy or in the negotiations leading to the present route transfers, particularly on routes where no competition existed before. On the other hand, we were not authorized to provide one-stop service between Prince George and Vancouver via Kamloops as applied for, and while we expected one-stop authority on the coastal route to Prince Rupert, two mandatory stops must be made. This restriction has been

appealed to the Air Transport Committee in Ottawa, and we expect a speedy decision.

Up-dating and review of new route studies is continuing, and last month, we asked the Committee to re-activate our long standing application for a service between Vancouver and Edmonton Industrial Airport. We are presently waiting for positive steps to be made in this matter. Your company is also actively pursuing its Calgary-Chicago application at this time in view of the re-opening of the Canada/United States bilateral talks later this year.

Necessary approvals were received earlier this month which enabled the completion of the purchase of Byers Transport Ltd., and Truckers Terminal Distribution Co. Ltd. on Tuesday last. These companies, as wholly owned subsidiaries of Pacific Western, will continue to operate under their own name and present management. The further development and refinement of the truck/air concept will of course, be actively pursued. The acquisition of these companies will both solidify our market position for heavy freighting in the north, and enhance future earnings.

The agreement with the Canadian Air Line Pilots' Association respecting flight crews had expired and was still under negotiation at year end. Agreement was reached on April 2nd on a 27 month contract that will run through to the end of March, 1971 - the same duration of contract as with the transcontinental carriers.

I am confident the challenge of this year's expansion will be successfully met by the men and women of Pacific Western - as they have always done before. There is little doubt it will be a very busy year and substantially increased revenues will be produced, which will result in additional profits. It is gratifying to be able to report this impressive growth and expansion of your company, as justification of the faith of our more than 2,000 shareholders and investors.

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On May 4, 1973, your company went on stream with a fully computerized reservations system. We have been assured that your employees trained and phased in much more rapidly and competently than was to be expected. We have purchased capacity on Air Canada's huge Univac system located in Toronto. The Pacific Western acronym for this system is ALFIE (Airline Flight Information Electronics).

On January 2, 1973, your company purchased, on very favourable terms, the complex previously occupied by CP Air and adjacent to existing facilities. This has permitted the development of a great number of efficiencies which we hope will show up not later than the last quarter of this year.

While there are several labour contracts due in the last half of the year, we are pleased to report that the employee/management relations have been maximized by good communication. Some strain should not be unexpected when the activity level reaches the present height therefore causing greater demands on each individual. Management is indeed proud of the manner in which the employees have responded to the present challenges. It is with this extra effort that we will continue to achieve new goals.

All of which is respectfully submitted.



B. C. SAMIS, Chairman of the Board



DONALD WATSON, President



REPORT FOR
FIRST SIX MONTHS
1973

PACIFIC WESTERN AIRLINES LTD.

and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS

For the six month period ending June 30, 1973

(with comparative figures for 1972)

(UNAUDITED)	(in thousands of dollars)	
	<u>1973</u>	<u>1972</u>
Operating revenues	\$35,987	\$27,421
Operating expenses	30,507	22,706
Operating income before depreciation and amortization	5,480	4,715
Depreciation	1,646	1,292
Amortization	275	368
Operating income	3,559	3,055
Other income	266	120
Interest on long term debt	937	841
Earnings before deferred income taxes	2,888	2,334
Deferred income taxes	1,464	1,108
Net earnings	<u>\$ 1,424</u>	<u>\$ 1,226</u>
Funds provided by operations	<u>\$ 5,076</u>	<u>\$ 4,079</u>
Weighted average number of common shares issued	<u>2,312,314</u>	<u>1,956,752</u>
Earnings per common share	<u>\$.56</u>	<u>\$.56</u>
Fully diluted earnings per common share	<u>\$.52</u>	<u>\$.50</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the six month period ending June 30, 1973

(with comparative figures for 1972)

(UNAUDITED)	(in thousands of dollars)	
	<u>1973</u>	<u>1972</u>
FUNDS PROVIDED BY:		
Operations:		
Net earnings	\$ 1,424	\$ 1,226
Add charges not requiring cash expenditures	<u>3,652</u>	<u>2,853</u>
Funds provided by operations	5,076	4,079
Long term financing of fixed assets	3,962	4,104
Disposal of land and equipment	245	631
Bank term loan	—	850
Reduction of deposits on aircraft	—	796
Issue of common shares	—	503
Other	<u>8</u>	<u>—</u>
Total funds provided	9,291	10,963
FUNDS APPLIED TO:		
Equipment	5,451	7,185
Long term debt	4,990	3,419
Introductory costs of new aircraft	577	114
Dividends	473	132
Deposits on purchase and lease of new equipment	11	740
Other	<u>—</u>	<u>62</u>
Total funds applied	<u>11,502</u>	<u>11,652</u>
Decrease in working capital	2,211	689
Working capital at beginning of year	<u>1,336</u>	<u>1,006</u>
Working capital (deficiency) June 30	<u>\$ (875)</u>	<u>\$ 317</u>



PACIFIC WESTERN

AIRLINES LTD

and Subsidiary Companies

INTERIM REPORT FOR THE SIX MONTH PERIOD ENDING JUNE 30, 1973

TO THE SHAREHOLDERS:

We are pleased to submit herewith the unaudited report of Pacific Western Airlines and subsidiary companies' financial results and activities for the six month period January 1, 1973 to June 30, 1973.

Consolidated revenues in the first six months of 1973 increased by 31.2% to \$35,987,000 compared to \$27,421,000 in 1972. This produced an operating income before depreciation and amortization in 1973 of \$5,480,000 up 16.2% over the same period of the previous year.

Non cash items such as depreciation and amortization for the period were \$1,921,000 compared to \$1,660,000 in 1972. There were no material changes in policy in these areas.

Earnings before the provision of deferred taxes were \$2,888,000 in 1973 an increase of 23.7% over the same period in 1972. After providing for taxes in the amount of \$1,464,000, the net earnings were \$1,424,000 for 1973 up 16.1% over 1972 for the same period. Considering the fact that in 1973 the number of common shares issued was 2,312,314 when compared to 1,956,752 in 1972 a significant improvement is evident when coincidentally the earnings per share in the same period both 1973 and 1972 were 56¢. Fully diluted 1973 earnings are 52¢ compared to 50¢ for 1972.

Pacific Western Trucking (Byers Transport) has undergone some management and operational changes but is still not in a profit position which is reflected in the above figures.

After proper consideration, your Board of Directors decided that the performance of your company thus far this year and so far as could be determined in the future, warranted the payment of a dividend on common shares. Accordingly, a 15¢ dividend per share was paid to common shareholders of record June 30, 1973.

Company operations have been gratifying in most areas showing a 31% increase in revenues over the same period last year. While all possible controls and refined procedures have been exercised on costs, some difficulty is being experienced in holding the line and some fare increases may become necessary. Quantum jumps in the cost of labour, fuel, incidental taxes, outside services, supplies, and government provided services are only a portion of the affected areas. The necessity for increased security of ground facilities and aircraft, along with passenger screening by all airlines, has become a major program for your company along with its attendant costs, some of which we are attempting to recover from the Federal Government.

The 1972/73 Winter Inclusive Tour program produced excellent results, particularly in the Hawaii and Mexico markets. 1973/74 promises to be substantially greater. The ABC TransAtlantic charters have not developed the way we had anticipated principally due to the fact that the Air Transport Committee in Ottawa had difficulty getting agreement from foreign countries on the rules. The result was we had no rules until February 15 which prohibited the marketing of a program that should be started in October of the previous year.

Your All Cargo Boeing 707-320C has been active in most parts of the world and due to the complexities of world marketing has been a little slow getting up to the desired yield level but the forecast at the present time for the year is favourable.

Hercules operations have had a good first six months. Since leaving the Arctic in late May due to landing strip conditions, two of the aircraft have had major maintenance and then went on to operations out of Khartoum and Lagos on the Niger Relief Project and the Tennaco oil operations in Ethiopia. If the Alaska pipeline is started, we could be hard pressed for enough Hercules aircraft for our winter Arctic work 1973/74.

On December 19 your company will be taking delivery of Boeing 737 number seven. Our fleet plan (computerized) was recently updated based on 18% growth rate through 1977. In view of the last six months experience at 35.3% growth on mainline, clearly, we are going to be short of mainline equipment by April or May 1974 and the entire fleet program is presently undergoing review.



REPORT FOR
FIRST SIX MONTHS
1974

PACIFIC WESTERN AIRLINES LTD.

and Subsidiary Companies including — Pacific Western Airlines (Alberta) Ltd., Aero Engineering Limited, Byers Transport Limited, B.C. Air Lines Ltd., P.W. Trucking Ltd.

CONSOLIDATED STATEMENT OF EARNINGS

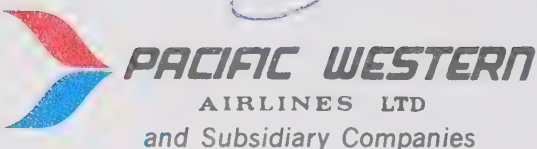
For the six month period ending June 30, 1974
(with comparative figures for 1973)

(UNAUDITED)	(in thousands of dollars)	
	<u>1974</u>	<u>1973</u>
Operating revenues	✓ \$43,051	✓ \$35,987
Operating expenses	37,559	30,507
Operating income before depreciation and amortization	5,492	5,480
Depreciation	2,047	1,646
Amortization	249	275
Operating income	3,196	3,559
Other income	345	266
Interest on long term debt	1,544	937
Net earnings before income taxes	1,997	2,888
Provision for future years income taxes	974	✓ 1,464
Net earnings	✓ <u>\$ 1,023</u>	✓ <u>\$ 1,424</u>
Funds provided by operations	<u>\$ 4,984</u>	<u>\$ 5,076</u>
Weighted average number of common shares issued	2,322,936	2,312,314
Earnings per common share	✓ <u>\$.39</u>	✓ <u>\$.56</u>
Fully diluted earnings per common share	<u>\$.37</u>	<u>\$.52</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
for six month period ending June 30, 1974
(with comparative figures for 1973)

(UNAUDITED)	(in thousands of dollars)	
	<u>1974</u>	<u>1973</u>
FUNDS PROVIDED BY:		
Operations:		
Net earnings	\$ 1,023	\$ 1,424
Add charges not requiring cash expenditures	3,961	3,652
Funds provided by operations	4,984	5,076
Proceeds from term bank loan	2,510	—
Long term financing of fixed assets	1,482	3,962
Disposal of land and equipment	98	245
Other	50	8
Total funds provided	9,124	9,291
FUNDS APPLIED TO:		
Repayment of bank loan	3,170	2,600
Equipment	2,775	5,451
Long term debt	2,501	2,390
Introductory costs of new aircraft	308	577
Dividends	472	473
Deposits on purchase and lease of new equipment	18	11
Other	13	—
Total funds applied	9,257	11,502
Decrease in working capital	133	2,211
Working capital at beginning of year	461	1,336
Working capital (deficiency) June 30	<u>\$ 328</u>	<u>\$(875)</u>

AR30



INTERIM REPORT FOR THE SIX MONTH PERIOD ENDING JUNE 30, 1974

TO THE SHAREHOLDERS:

We are pleased to submit herewith the unaudited report of Pacific Western Airlines and subsidiary companies financial results and activities for the six month period January 1, 1974 to June 30, 1974.

Operating revenues of \$43,051,000 for the six month period compared to the same period of 1973 of \$35,987,000 for an increase of 19.5%. Notwithstanding revenue growth, the operating income before depreciation and amortization remained the same as 1973 at \$5,500,000. Your company was faced with several unforecastable and hopefully non-recurring costs during the period in addition to the typical inflationary factors. Some of the factors affecting the net earnings before taxes and consequently the earnings per common share were:

- The airport firemen's illegal walkout and threatened Air Traffic Controllers' strike (in excess of \$1,000,000).
- The increased price variance (not volume) in fuel over the same period last year. (\$1,554,620 or 24.8%)
- Passenger screening security (\$120,000 for 1974 and a carry-over of \$108,000 from 1973).

- Bank prime lending rate increase: weighted average effective prime rate first six months 1973 — 6.44%. For the same period in 1974 the weighted average effective prime rate was 10.06% for an increase of 56%.

Notwithstanding these factors, operating expense as a percentage of revenue increased only 3% from 84.1% in 1973 to 87.1% in 1974.

Had your company not experienced these major cost increases, its financial objectives of earnings per common share of \$1.02 would have been achieved. There is some hope for stability in fuel and bank prime rate for the intermediate future. Fare increases went into effect in March 1974 and again recently on July 21, 1974. However, fare increases are a long procedural exercise and cannot respond immediately to such matters as the 10.8¢ per gallon fuel increase in early May.

The inflationary factors have now been more clearly identified and their rate of progression charted and will be considered in the revised forecast. All cost centres are under intensive daily scrutiny to ensure that the most efficient procedures and systems are in effect.

All of which is respectfully submitted.

Donald Watson, Director

W. R. Harris, Director

file
PACIFIC WESTERN AIRLINES LTD.

(PWA)

SUPPLEMENT NO. 2

March 6, 1967

<u>Approx. Market</u>	<u>Price Range 1966 - 1967</u>	<u>Earnings per Sh. 1966</u>	<u>P/E Ratio</u>
\$10½	\$3.90 - 12.75	\$1.20	8.8:1

(Conclusions arising out of talk given by V. R. Harris, Vice-President and General Manager of Pacific Western Airlines Ltd. to Toronto Analysts, March 1st, 1967.)

Projected Profits

	<u>Cash Flow</u>	<u>Est. Taxes</u>	<u>Net After Tax Profits</u>	<u>E. P. S.</u>
1967	\$3.2 million	nil	\$873 thousand	0.89
1968	4.1 "	nil	1.36 million	1.42
1969	6.7 "	\$700 thousand	2.68 "	2.88
1970	7.5 "	\$2.0 million	2.07 "	2.20
1971	8.8 "	2.8 "	2.66 "	2.86

The above projections are based on the following assumptions:-

- 1) The net after tax profits are based on the present scheme of accounting in which provision is not made for future taxes.
- 2) The net after tax profits do not take into account the sale of equipment but take into account the current planned expenditures of \$22 million. It should be further noted that this is the profit on the present route structure.
- 3) The earnings per share projections assume total conversion of the \$1,250,000 convertible debenture issue currently outstanding.

Statement of Policy by the Minister of Transport

According to Mr. Harris, the new transportation policy has the following major implications for PWA.

- (a) PWA is designated the regional carrier for Alberta, British Columbia, Northwest Territories and the Yukon.

- (b) Subsidies will be paid but PWA do not require them nor do they plan to take advantage of this Government help.
- (c) Liabilities associated with the purchase of new equipment will be guaranteed by the Federal Government (PWA, however, planned the purchase of their new equipment before the policy was announced and without taking advantage of it) but the policy should make equipment purchases in the future very much easier.
- (d) Transfer of regional routes from CPA and Air Canada to regional carriers.
- (e) Where routes were not transferred competition would be permitted with the main line carrier within the region.

Route Expansion

As noted above, the cash flow and profit projections are based on projected growth within the present route structure. However, the network of services now operated by CPA produces revenue of about one and a half times that realised by PWA in its route network. PWA intend to apply for transfer of the CP routes to them but Mr. Harris intimated that they could expect considerable opposition from CP in this regard. Apparently CP are undertaking a major re-equipment of their B.C. operations, presumably to strengthen their case with the Transport Commission for continued retention of these licenses. However, the allocation of licenses is fluid and it could well be that CP are merely using this as a play to obtain additional Trans-Canada routes.

Equipment and Depreciation

Equipment is depreciated on the Company's books at varying rates for each type of aircraft. The DC 3's and DC 4's have been fully depreciated and have little value. The DC 6's are depreciated over eight years at $10\frac{1}{2}\%$ per annum on a straight line basis with a 15% residual. The turbo-props, that is the four Convair 640's now being purchased will be depreciated over an eight year period straight line with 15% residual and the two Jets over ten years also with a 15% residual. For tax purposes the average depreciation is 30% on a declining basis.

Delivery of the first Convair 640 occurred last Monday and the inaugural flight is expected to be March 7th. The second Convair will be received on March 10th and the other two in late March and early April. These four aircraft will replace four DC 3's and three Convair 46's. Delivery of the two Boeing 737 jets should occur in November 1968 and March of 1969. The Lockheed Hercules which will soon be in operation is the only aircraft purchased for expansion, the others being largely replacements for existing equipment. In 1969, of a projected \$20 million gross revenue the Hercules is expected to provide \$7 million. The aircraft have been purchased on a package deal, that is to say the cost includes spare parts and spare engines. The breakdown is as follows:-

Four Convair 640's	\$ 7 million
Two Boeing 737 jets	\$11 million
Lockheed Hercules	\$ 4½ million

Research Department

MM Holgate:rmp
March 6, 1967

